

# Demonetisation: Impact on Indian Economy

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**Abstract**— The demonetisation of high value currency denominations featuring Rs 500 and Rs 1,000 notes was a bold step by Indian government. Demonetization of currency means discontinuity of the said currency from circulation and replacing it with a new currency. It has deeply impacted Indian economy in various ways. But it has been widely acclaimed as positive decision taken for the benefit of the citizens. This paper traces the impact of this move on Indian economy.

**Keywords**—Government of India, demonetize, discontinuity, circulation, new currency.

## I. INTRODUCTION

The government of India recently took a bold step to demonetize Rs 500 and Rs 1000 currency effective from 8 November midnight. It was a major decision taken by the current government which had its impact on all sections of the society. Demonetisation has given a new direction to the way people do monetary transactions in India. Demonetisation has dramatically altered the way Indians go about their daily lives and how businesses run their day-to-day operations. In this paper will take you through the economics and the politics of this latest government move.



Representational image. Reuters.

Demonetization refers to discontinuing of current currency units and replacing those currency units with new currency units. It is a major decision and it impacts all the citizens of the country because overnight all the money you have become a piece of paper which has no value if you do not exchange it with new currency units or deposit it in the banks.

The panic and discomfort is temporary phase. Actually intention behind this move is to curb the black money which is source of terrorism, bribes and other anti social activities. **Is the decision all of sudden?** Answer is absolutely **“NO”**. Different Steps had been initiated before the implementation of this brave decision

- Step-1 Govt requested people for creating the bank Accounts under jandhanyojna
- Step-2 Opportunity provided for declaration of unaccounted income under the Scheme of IDS.
- Step-3 Now the time for overwhelming turn as part of nation building.

## II. DISCUSSION

Since the decision to ban high value currency notes was taken in early November, the government has tried to portray the brighter side of the note ban and its benefits on the economy in the long run. The decision to ban high value notes was taken to weed out black money and counterfeit notes from the system which has been deep-rooted in the economy for the past many decades.

With 86 percent of the total money circulation wiped out from the system, the government plans to keep a tight leash on the corruption front. According to Ambit Capital report, the share of the informal economy in India could shrink from 40 percent to 20 percent and the formal organised sector will gain market share.

The sustained crackdown on black money will also prevent people from parking their savings in physical assets such as gold and real estate, and instead boost the flow of savings into the financial system. With the quantum increase in financial savings, the cost of debt capital in India should fall. Further, as saving rate increases, lending rates are likely to fall in the line. Through the demonetisation exercise, the government has been pressing hard to become

a cashless economy and is encouraging more and more people to adopt the digital payments system for their transactions. The government wants people with smartphones to use the United Payments Interface (UPI) app for a cashless transaction. Besides banks, online wallet companies including Paytm, MobiKwik and Free-Charge, too, are promoting their online products and wooing customers to get away from cash-based transactions.

In the aftermath of demonetisation, reports also suggest that housing prices in 42 major cities across India could drop by up to 30 percent over the next 6-12 months.

Although several advantages of demonetisation rolling into the economy could be far-fetched, there are immediate challenges the economy is already staring at. Following the decision to ban the currency notes, the government's lack of preparedness to deal with cash availability has hit the common man really hard. Despite the government's assurance to improve cash availability on a daily basis, several banks and ATMs across the country continue to dispense little or no cash.

People in villages and semi-urban areas are worst hit as majority of the transactions are done through cash. The government's constant flip-flops on withdrawal and deposit limits at bank branches and ATMs have put people in complete disarray. With one month past the note ban move, the problem doesn't seem to be fully resolved as banks continue to face cash crunch.

The bigger threat arising out of demonetisation is the impact on the country's economic growth. While brokerage Ambit Capital created shock waves by predicting that GDP growth will fall to 5.8 percent in 2017-18 from 7.3 percent estimated earlier, Construction and allied sectors, jewellery, textiles and real estate are some sectors where job losses, if not already happening, are imminent.

Similarly, 20-25 percent of the roughly 2.5 lakh workers in the leather industry have been adversely affected as they are daily wage workers. The industry has been hit particularly hard as 90 percent of the units are small and medium enterprises. In the jewellery sector, 15-20 percent of workers, who are paid daily, too, have been affected.

Economist have also warned that a virtual shutdown of India's informal sector could spell doom for employment.

Recently, the July-September growth numbers of 7.3 percent also came below analysts' estimates. A day before, the Reserve Bank of India in its policy statement cut down growth forecast to 7.1 percent from 7.6 percent earlier for the current fiscal year.

Just like a coin has a flip side, demonetisation too has its advantages and disadvantages.

### Advantages of Demonetisation

1. A major advantage is that demonetisation helped the government track black money. Large sums of black money was kept hidden by tax evaders. Demonetisation helped government uncover huge amount of unaccounted cash. According to estimates made by RBI, people have deposited more than rupees 3 lakh crores worth of black money in the bank accounts. This has helped the government in slowing down the plague of parallel economy.
2. A major reason behind demonetisation was that a big part of black money was being used for funding terrorism, gambling, in inflating the price of major assets classes like real estate, gold and other social evils. Demonetisation is acting as an effective countermeasure against such activities. Now all such activities will get reduced for some time and also it will take years for people to generate that amount of black money again and hence in a way it helps in putting an end this circle of people doing illegal activities to earn black money and using that black money to do more illegal activities.
3. Another benefit is that due to people disclosing their income by depositing money in their bank accounts government gets a good amount of tax revenue which can be used by the government towards the betterment of society by providing good infrastructure, hospitals, educational institutions, roads and many facilities for poor and needy sections of society.

### Disadvantages of Demonetisation

1. The biggest disadvantage of demonetisation has been the chaos and frenzy it created among common people initially. Everyone was rushing to get rid of demonetised notes while inadequate supply of new notes affected the day to day budgets of citizens. Banks and ATMs witnessed long queues while small businesses suffered temporary financial losses. The situation was even worse in rural India where people struggled to exchange and withdraw cash due to lack of enough number of banks and ATMs in their vicinity.
2. Another disadvantage is that destruction of old currency units and printing of new currency units involve costs which has to be borne by the government and if the costs are higher than benefits then there is no use of demonetisation.
3. Another problem is that this move was targeted towards black money but many people who had not

kept cash as their black money and rotated or used that money in other asset classes like real estate, gold and so on were not affected by demonetisation.

### **III. CONCLUSION**

As one can see from the above that demonetisation has both advantages and disadvantages. Demonetisation alone cannot fight parallel economy and eliminate black money. Several other measures are required by the government to change the economy for good. We should respect and support this move and wait with the patience for better execution. Every Indian including common man should be responsible for part nation building. And our temporary inconvenience is negligible as related with the outcome in future. We should encourage and join together for the mission of India development.

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